

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5153-01  
Bill No.: Perfected HB 2245  
Subject: Education, Elementary and Secondary; Elementary and Secondary Education  
Department  
Type: Original  
Date: April 28, 2010

---

Bill Summary: This proposal relates to school funding.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	Expected to exceed \$100,000	Expected to exceed \$100,000	Expected to exceed \$100,000
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>Expected to exceed \$100,000</b>	<b>Expected to exceed \$100,000</b>	<b>Expected to exceed \$100,000</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 14 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Local Government</b>	<b>(Expected to exceed \$100,000)</b>	<b>(Expected to exceed \$100,000)</b>	<b>(Expected to exceed \$100,000)</b>

---

## **FISCAL ANALYSIS**

---

### ASSUMPTION

#### §163.031- (Introduced version of proposal)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state this proposed legislation should not result in additional costs or savings to BAP.

The proposal slows the SB 287 (2005) foundation formula phase-in schedule by holding the phase-in percentages steady for school years 2009-2010 and 2010-2011. In subsequent years, the phase-in resumes with a one school year lag in application of phase-in percentages.

The delayed implementation of the new formula phase-in could result in a cost savings to the state. BAP defers to the Department of Elementary and Secondary Education for the estimated fiscal impact of this proposed legislation.

According to officials from the **Department of Elementary and Secondary Education (DESE)**, this proposal maintains the FY 10 formula percentages in FY 11. The increased cost of the school foundation formula is estimated to be \$12.2 million over the FY 10 appropriation. DESE's increase request for FY 11 was \$105.7 million. Holding the percentages constant reduces the FY 11 increased cost by approximately \$93.5 million.

DESE's FY11 budget request was an increase of \$105.7 million. Since the phase percentages used for that calculation are pushed into FY12 in this proposal, it is likely that the FY 12 amount would be approximately \$105 million more than FY11 as changed by this proposal. FY13 is likely to increase another \$100 million.

DESE does not have data to make a more precise estimate. An approximate \$100 million increase per year is constant with the initial expectation when the formula passed.

**Oversight** assumes the increase due to the phase-in of the foundation formula being delayed by one year will result in a cost in FY 13, the final year of the phase-in per language in this proposal. Oversight also assumes there will be a corresponding loss to local school districts in FY 11 and FY 12 and a corresponding gain in state aid in FY 13.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education (DESE)** provided the following assumptions for the amendments to Perfected HB 2245:

§163.031 - House Amendment 1

This amendment changes the phase-in percentages for the foundation formula for FY11 through FY17. There are provisions for increasing or decreasing allocations to districts based on the appropriation. The cost or savings is subject to appropriation.

**Oversight** does not have enough information to complete calculations on savings through the scope of the fiscal note. **Oversight** assumes the savings to General Revenue will exceed \$100,000 during each year of the scope of the fiscal note.

Section 1 - House Amendment 2

Officials from the **Department of Revenue** and the **Missouri State Tax Commission** state this section of the proposal will have no fiscal impact on their respective agencies.

Officials from DESE state this amendment appears to add no cost to the foundation formula.

§163.036 - House Amendment 3; House Amendment 1 and 2 to House Amendment 3

Limiting the summer school ADA included in the payment weighted ADA of the formula will reduce the cost of the formula. DESE does not have data to estimate a reduced cost. Also, the wording of HA2 to HA3 is unclear regarding specifically the math that needs to be done to limit the summer school ADA on which a district is paid.

§168.500 - House Amendment 4

Career Ladder – subject to appropriation; the cost or savings is dependent on the appropriation; the change in the state match may reduce the state cost from the FY10 appropriation but that cost is unknown at this time.

§178.597 - House Amendment 5

This amendment appears to have no increased cost.

ASSUMPTION (continued)

§163.044 - House Amendment 6

Small Schools – At some future year when the formula is funded at the required amount, there is to be a \$5M increase to the Small Schools appropriation (from the current \$15 to \$20M). There are some changes to the distribution of the money to districts, but the cost change is \$5M.

**Oversight** assumes the formula will not be fully funded until beyond the scope of the fiscal note; therefore, will show no fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2011	FY 2012	FY 2013
---	---------	---------	---------

**GENERAL REVENUE**

Savings - Department of Elementary and Secondary Education (DESE) - Decrease in state aid phase-in (§163.031)

Expected to exceed	Expected to exceed	Expected to exceed
<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>

**ESTIMATED NET EFFECT ON  
GENERAL REVENUE**

<u>Expected to exceed \$100,000</u>	<u>Expected to exceed \$100,000</u>	<u>Expected to exceed \$100,000</u>
---	---	---

<u>FISCAL IMPACT - Local Government</u>	FY 2011	FY 2012	FY 2013
---	---------	---------	---------

**LOCAL POLITICAL SUBDIVISIONS**

Loss - Local School Districts - Decreased state aid (§163.031)

(Expected to exceed <u>\$100,000</u> )	(Expected to exceed <u>\$100,000</u> )	(Expected to exceed <u>\$100,000</u> )
--	--	--

**ESTIMATED NET EFFECT ON  
LOCAL POLITICAL SUBDIVISIONS**

<u>(Expected to exceed \$100,000)</u>	<u>(Expected to exceed \$100,000)</u>	<u>(Expected to exceed \$100,000)</u>
---	---	---

### FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

### FISCAL DESCRIPTION

#### §163.031 - Introduced version of proposal

Currently, the school funding formula is being phased in with a ratio of funds calculated under the new formula and funds calculated under the old formula. This proposal extends the 58% new formula/42% old formula step of the phase-in for another year, through the 2010-2011 school year and postpones the two remaining phase-in steps for an additional school year.

This section contains an effective date of July 1, 2010.

#### §163.031 - House Amendment 1

§163.031.2 (1) (d) Except as provided in subdivisions (13) and (14) of this subsection, for each year subsequent to the 2008-09 school year, the amount shall be no less than that computed in paragraph © of this subdivision, multiplied by the weighted average daily attendance pursuant to §163.036, less any increase in revenue received from the classroom trust fund under §163.043.

§163.031.2 (2) (d) Except as provided in subdivisions (13) and (14) of this subsection, for each year subsequent to the 2008-09 school year, the amount shall be no less than that computed in paragraph © of this subdivision;

§163.031.4 In the 2006-07 school year and each school year thereafter for nine years, those districts entitled to receive state aid under the provisions of subsection 1 of this section shall receive state aid in an amount as provided in this subsection.

§163.031.4 (4) For the 2009-10 school year, the amount of state aid shall be fifty-eight percent of the amount of state aid calculated for the district for the 2009-10 school year under the provisions of subsection 1 of this section plus forty-two percent of the total amount of state revenue received by the district for the 2005-06 school year from the foundation formula, line 14, gifted, remedial reading, exceptional pupil aid, fair share, and free textbook payments less any amounts received under section 163.043.

§163.031.4(5) For the 2010-11 school year, the amount of state aid shall be fifty-eight percent of the amount of state aid calculated for the district for the 2010-11 school year under the provisions of subsection 1 of this section plus forty-two percent of the total amount of state revenue

FISCAL DESCRIPTION (continued)

received by the district for the 2005-06 school year from the foundation formula, line 14, gifted, remedial reading, exceptional pupil aid, fair share, and free textbook payments less any amounts received under §163.043.

(6) For the 2011-12 school year, the amount of state aid shall be fifty-eight percent of the amount of state aid calculated for the district for the 2011-12 school year under the provisions of subsection 1 of this section plus forty-two percent of the total amount of state revenue received by the district for the 2005-06 school year from the foundation formula, line 14, gifted, remedial reading, exceptional pupil aid, fair share, and free textbook payments less any amounts received under §163.043.

(7) For the 2012-13 school year, the amount of state aid shall be sixty percent of the amount of state aid calculated for the district for the 2012-13 school year under the provisions of subsection 1 of this section plus forty percent of the total amount of state revenue received by the district for the 2005-06 school year from the foundation formula, line 14, gifted, remedial reading, exceptional pupil aid, fair share, and free textbook payments less any amounts received under §163.043.

(8) For the 2013-14 school year, the amount of state aid shall be seventy percent of the amount of state aid calculated for the district for the 2013-14 school year under the provisions of subsection 1 of this section plus thirty percent of the total amount of state revenue received by the district for the 2005-06 school year from the foundation formula, line 14, gifted, remedial reading, exceptional pupil aid, fair share, and free textbook payments less any amounts received under §163.043.

(9) For the 2014-15 school year, the amount of state aid shall be eighty percent of the amount of state aid calculated for the district for the 2014-15 school year under the provisions of subsection 1 of this section plus twenty percent of the total amount of state revenue received by the district for the 2005-06 school year from the foundation formula, line 14, gifted, remedial reading, exceptional pupil aid, fair share, and free textbook payments less any amounts received under §163.043.

(10) For the 2015-16 school year, the amount of state aid shall be ninety percent of the amount of state aid calculated for the district for the 2015-16 school year under the provisions of subsection 1 of this section plus ten percent of the total amount of state revenue received by the district for the 2005-06 school year from the foundation formula, line 14, gifted, remedial reading, exceptional pupil aid, fair share, and free textbook payments less any amounts received under §163.043.

(11) For the 2016-17 school year and subsequent years, the amount of state aid shall be as calculated under subsection 1 of this section.

(12) The provisions of this subsection shall not prohibit the General Assembly from appropriating more funds than required to fund the applicable percentages provided for in any school year under this subsection. In such an instance, the Department of Elementary and

FISCAL DESCRIPTION (continued)

Secondary Education (DESE) shall adjust such phase-in percentages in order to accommodate the total amount of available appropriations so that such percentages equal one hundred percent and the total amount of the appropriated funds is distributed.

(13) For any school year governed by this subsection, if the foundation formula appropriation under subsections 1, 2, and 4 of this section is equal to or greater than the fiscal year 2010 foundation formula expenditure under subsections 1, 2, and 4 of this section and the previous fiscal year's foundation formula expenditures under subsections 1, 2, and 4 of this section but is insufficient to fully fund the applicable percentages provided for in any school year under this subsection or the current year appropriation is reduced by the governor as provided in Section 27 of Article IV of the Missouri Constitution and as a result of said reduction the reduced appropriation is insufficient to fully fund the applicable percentages provided for in any school year under this subsection, DESE shall reduce the payment amounts awarded to all districts, including those districts that qualify under subsection 2 of this section. DESE shall calculate a uniform proportional reduction percentage based on all available foundation formula state aid for the given school year to be applied to the payment amount to which all districts would otherwise be entitled under the applicable phase-in percentage for the applicable school year as provided in this subsection.

(14) In any school year governed by this subsection in which the foundation formula appropriation under subsections 1, 2, and 4 of this section is less than the fiscal year 2010 foundation formula expenditure under subsections 1, 2, and 4 of this section; less than the previous fiscal year's foundation formula expenditure under subsections 1, 2, and 4 of this section; or reduced from the current year appropriation by the governor as provided in Section 27 of Article IV of the Missouri Constitution and as a result of said reduction the reduced appropriation is less than the foundation formula fiscal year 2010 expenditure or less than the previous fiscal year's foundation formula expenditure, DESE shall reduce the payment amounts awarded to all districts, including those districts that qualify under subsection 2 of this section. DESE shall calculate a uniform proportional reduction percentage based on all available foundation formula state aid for the given school year to be applied to the payment amount to which all districts would otherwise be entitled under the applicable phase-in percentage for the applicable school year as provided in this subsection.

The following portion of this section is to be repealed:

[(7) (b) a. For the 2006-07 school year, if a school district experiences a decrease in summer school average daily attendance of more than twenty percent from the district's 2005-06 summer school average daily attendance, an amount equal to the product of the percent reduction that is in excess of twenty percent of the district's summer school average daily attendance multiplied by the funds generated by the district's summer school program in the 2005-06 school year shall be



FISCAL DESCRIPTION (continued)

subtracted from the district's current year payment amount.

b. For the 2007-08 school year, if a school district experiences a decrease in summer school average daily attendance of more than thirty percent from the district's 2005-06 summer school average daily attendance, an amount equal to the product of the percent reduction that is in excess of thirty percent of the district's summer school average daily attendance multiplied by the funds generated by the district's summer school program in the 2005-06 school year shall be subtracted from the district's payment amount.

c. For the 2008-09 school year, if a school district experiences a decrease in summer school average daily attendance of more than thirty-five percent from the district's 2005-06 summer school average daily attendance, an amount equal to the product of the percent reduction that is in excess of thirty-five percent of the district's summer school average daily attendance multiplied by the funds generated by the district's summer school program in the 2005-06 school year shall be subtracted from the district's payment amount.

d. Notwithstanding the provisions of this paragraph, no such reduction shall be made in the case of a district that is receiving a payment under section 163.044 or any district whose regular school term average daily attendance for the preceding year was three hundred fifty or less.

e. This paragraph shall not be construed to permit any reduction applied under this paragraph to result in any district receiving a current-year payment that is less than the amount calculated for such district under subsection 2 of this section.]

Section 1 - House Amendment 2

For school districts that levy separate tax rates on each subclass of real property and personal property in the aggregate, if voters approve a ballot prior to August 28, 2010 that presents separate stated tax rates to be applied to the different subclasses of real property and personal property in the aggregate, or increases the separate rates that may be levied on the different subclasses of real property and personal property in the aggregate by different amounts, then the tax rate that shall be used for the single rate calculation under subsection 2 of §137.073 shall be a blended rate, which shall be calculated in the manner described in subdivision (1) of subsection 6 of §137.073.

Section C - House Amendment 2

The emergency clause contained in Section B of this proposal shall not apply to Section 1 of Section A of this proposal.

FISCAL DESCRIPTION (continued)

§163.036 - House Amendment 3; House Amendment 1 and 2 to House Amendment 3

Beginning with the 2010-2011 school year, the summer school attendance included in average daily attendance shall include only the attendance hours of pupils based exclusively on academic areas of study for credit-bearing courses or remedial courses that are necessary for a student to be promoted to the next grade. In order for summer school attendance to be included in the average daily attendance definition, each school district shall verify to the department of elementary and secondary education that the district's summer school program conforms to this subsection. This proposal shall not be construed to disallow a school district from providing a summer school program that offers non-academic or enrichment activities at such district's expense. Such summer school average daily attendance reimbursement shall be limited to the total number of hours calculated by multiplying fifteen percent of a district's January membership for a maximum of six hours a day for twenty days.

§163.037 - House Amendment 3

This section is repealed: [In any school year after the 2009-10 school year, if there is a twenty-five percent decrease in the statewide percentage of average daily attendance attributable to summer school compared to the percentage of average daily attendance attributable to summer school in the 2005-06 school year, then for the subsequent school year, weighted average daily attendance, as such term is defined in §163.011, shall include the addition of the product of twenty-five hundredth times the average daily attendance for summer school.]

Section C - House Amendment 3

The emergency clause contained in Section B of this proposal shall not apply to §163.037 of Section A of this proposal.

§168.500 - House Amendment 4

The career advancement program is a matching fund program. The general assembly may make an annual appropriation of the Excellence in Education Fund established under §160.268 for the purpose of providing the state's portion of the career advancement program.. The general assembly may appropriate fund to the Career Ladder Forward Fund.

Beginning in fiscal year 2012, the state portion of career ladder payments shall only be made available to local school districts if the general assembly makes an appropriation for such program. Payments authorized under §168.500 to 168.515 shall only be made available in a year

FISCAL DESCRIPTION (continued)

for which a state appropriation is made. Any state appropriation shall be made prospectively in relation to the year in which work under the program is performed.

Nothing in this section shall be construed to prohibit a local school district from funding the program for its teachers, for work performed in years for which no state appropriation is made available.

§168.515 - House Amendment 4

§168.515.2 - The state may make payments pursuant to §163.031 to the local school district for the purpose of providing funding to the local school district for the payment of any salary supplements provided for in this section, subject to the availability of funds as appropriated each year and distributed on a matching basis where the percentage of state funding shall be forty percent and the percentage of local funding shall be sixty percent.

The following remainder of subsection 2 and subsection 3 are repealed:

2. [be based on assessed valuation of the district for the second preceding school year.
3. In distributing these matching funds, school districts shall be ranked by the assessed valuation for the second preceding school year per weighted average daily attendance from the highest to the lowest and divided into three groups. Group one shall contain the highest twenty-five percent of all public school districts, groups two and three combined shall contain the remaining seventy-five percent of all public school districts. The districts in groups two and three shall be rank-ordered from largest to smallest based on enrollment as of the last Wednesday in September during the second preceding school year, group two shall contain twenty-five percent of all public school districts that are larger on the enrollment-based rank-ordered list and group three shall contain the remaining fifty percent of all public school districts. Pursuant to subsection 4 of this section, districts in group one shall receive forty percent state funding and shall contribute sixty percent local funding, group two shall receive fifty percent state funding and shall contribute fifty percent local funding and group three shall receive sixty percent state funding and shall contribute forty percent local funding.

FISCAL DESCRIPTION (continued)

4. The incremental groups are as follows:

<u>Group of Districts</u>		<u>%of Local Funding</u>	<u>% of State Funding</u>
1	25%	40%	60%
2	25%	50%	50%
3	50%	60%	40%

5. Beginning in the 1996-97 school year, any school district in any group which participated in the career ladder program in 1995-96 and paid less than the local funding percentage required by subsection 4 of this section shall increase its local share of career ladder costs by five percentage points from the preceding year until the district pays the percentage share of cost required by subsection 4 of this section, and in no case shall the local funding percentage be increased by a greater amount for any year. For any district, the state payment shall not exceed the local payment times the state percentage share divided by the local percentage share. Except as provided in subsection 10 of this section, any district not participating in the 1995-96 school year or any district which interrupts its career ladder program for any subsequent year shall enter the program on the cost-sharing basis required by subsection 4 of this section.]

Section 3 - House Amendment 4

The emergency clause contained in Section B of this proposal shall not apply to §168.500 and §168.515 of this proposal.

§178.597 - House Amendment 5

2. The following portion of this subsection is repealed: [No program shall be approved or contract entered into which requires any additional payment by participants or their parents or guardians.]

Families with children under the age of kindergarten entry shall be eligible to receive annual health and development screenings and parents shall be eligible to receive prenatal visits under §178.691 to 178.699. Priority for Parents as Teachers service delivery, which includes but is not limited to home visits, group meetings, screenings and service referrals, delivery shall be given to high needs families in accordance with criteria set forth by the department of elementary and secondary education. Local school districts may establish cost sharing strategies to supplement funding for Parents as Teachers program services. The provisions of this subsection (4) shall

FISCAL DESCRIPTION (continued)

expire on December 31, 2015 unless reauthorized by an act of the general assembly.

Section 3 - House Amendment 5

The emergency clause contained in Section B of this proposal shall not apply to §178.697 of Section A of this proposal.

§163.044 - House Amendment 6

Beginning with the 2007 fiscal year and each subsequent fiscal year, the general assembly shall appropriate fifteen million dollars to be directed in the following manner to school districts with an average daily attendance for the regular school year of three hundred fifty students or less in the school year preceding the payment year.

Ten million dollars shall be distributed to the eligible districts in proportion to their average daily attendance for the regular school year.

Beginning with the earlier of the completion of the phase-in under subsection 4 of §163.031 or the fiscal year after the first fiscal year in which the amount appropriated for subsections 1 and 2 of §163.031 is sufficient to accommodate the full amount of the annualized calculation required under such subsections after fiscal year 2010, as certified by the commissioner of education in a letter to the house budget chair and senate appropriations chair, and each subsequent fiscal year, the general assembly shall appropriate twenty million dollars to be directed in the following manner to school districts with an average daily attendance for the regular school year of three hundred fifty students or less in the school year preceding the payment year:

(a) Fifteen million dollars shall be distributed to the eligible districts in proportion to their average daily attendance for the regular school year; and

(b) Five million dollars shall be directed to the eligible districts that have an operating levy for school purposes in the current year equal to or greater than the performance levy and any school districts which have an operating levy for school purposes in the current year less than the performance levy solely due to a modification of such district's levy required under subdivision (4) of subsection 5 of §137.073, RSMo. A tax-rate-weighted average daily attendance shall be calculated for each eligible district in proportion to its operating levy for school purposes for the current year divided by the performance levy with that result multiplied by the district's average daily attendance in the school year preceding the payment year. The total appropriation pursuant to this subdivision shall then be divided by the sum of the tax-rate-weighted average daily attendance of the eligible districts, and the resulting amount per tax-rate-weighted average daily attendance shall be multiplied by each eligible district's tax-rate-weighted average daily

FISCAL DESCRIPTION (continued)

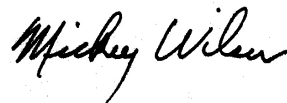
attendance to determine the amount to be paid to each eligible district.

Upon the occurrence of the earlier of the two conditions outlined in subdivision (2) of subsection 1 of this section, and each subsequent fiscal year, the general assembly shall appropriate an amount to be directed in the following manner to school districts with an average daily attendance for the regular school year of three hundred fifty-one to and including four hundred forty-nine students in the school year preceding the payment year, so that a school district with an average daily attendance for the regular school year of three hundred fifty-one shall receive ninety-nine percent of the amount per average daily attendance distributed under subdivision (1) of subsection 1 of this section and the percentage factor shall decrease by one per each additional student in average daily attendance as average daily attendance for the regular school year increases to and including four hundred forty-nine.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education  
Missouri State Tax Commission  
Department of Revenue  
Office of Administration  
Division of Budget and Planning



Mickey Wilson, CPA  
Director  
April 28, 2010